

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 AGR-01 AID-05 CIAE-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
PA-02 ISO-00 /132 W
-----030405 101935Z /66

R 101722Z AUG 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 9013
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION GENEVA
USDOC WASHDC

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USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY
USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD, TREASURY FOR
DONALD E. SYVRUD

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: PRESS COVERAGE OF EUROPEAN MONETARY NEGOTIATION

1. SUMMARY: MELVYN WESTLAKE OF THE TIMES PRESENTED THE
FOLLOWING VIEW OF THE STATE OF NEGOTIATIONS ON THE
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BREMEN PROPOSALS IN TODAY'S TIMES. EMBASSY FEELS THAT
IT PROVIDES A BALANCED, THOUGH GENERAL, PERSPECTIVE ON
SOME OF THE ISSUES OF THESE DISCUSSIONS. END SUMMARY.

2. QUOTE: WORK IS BEGINNING IN EARNEST AT FINANCE MIN-
ISTRIES AND CENTRAL BANKS THROUGHOUT THE EUROPEAN COM-
MUNITY TO DEVISE A NEW CURRENCY REGIME.

THE COMMUNITY'S MONETARY COMMITTEE WILL MEET AT DEPUTY LEVEL TODAY TO GET THE PROCESS UNDER WAY. WITHIN LESS THAN THREE MONTHS IT IS HOPED THE EXPERTS WILL HAVE AGREED ON A FAR-REACHING PLAN TO BRING GREATER STABILITY TO EUROPEAN CURRENCIES AND NARROW THE DIFFERENCES IN ECONOMIC PERFORMANCE BETWEEN THE STRONGER AND WEAKER NATIONS.

THIS WAS THE OBJECTIVE SET BY COMMUNITY HEADS OF GOVERNMENT AT LAST MONTH'S MEETING IN BREMEN. THE INTENTION IS THAT THEY SHOULD SET THEIR POLITICAL SEAL OF APPROVAL ON ANY AGREED PLAN WHEN THEY AGAIN MEET, AT THE END OF THE YEAR, ALTHOUGH FOR ALL PRACTICAL PURPOSES OCTOBER 31 CONSTITUTES THE DEADLINE FOR GETTING AGREEMENT.

THE WHOLE EXERCISE IS BEING CARRIED FORWARD ON TWO FRONTS.

THE ACTUAL DESIGN OF THE CURRENCY SCHEME IS IN THE HANDS OF THE MONETARY COMMITTEE, WHICH IS CHARGED WITH MAKING SURE THAT THE PROPOSALS MEET THE THREE ESSENTIAL CONDITIONS LAID DOWN AT BREMEN.

THESE ARE THAT THERE ARE EQUAL OBLIGATIONS ON BOTH DEFICIT AND SURPLUS COUNTRIES; THAT THE CREDIT AND BACK-UP MECHANISMS ARE ADEQUATE FOR THE JOB, AND THAT EXCHANGE RATE CAN ADJUST, IF NECESSARY, TO FUNDAMENTAL DIVERGENCIES IN ECONOMIC PERFORMANCE.

AT THE SAME TIME OTHER COMMITTEES IN BRUSSELS ARE CARRYING OUT THE SO-CALLED "CONCURRENT EXERCISE". THIS UNCLASSIFIED

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IS CONCERNED WITH THE WHOLE AREA OF RESOURCE TRANSFER BETWEEN MEMBERS OF THE COMMUNITY, INCLUDING A THOROUGH EXAMINATION OF BOTH REGIONAL POLICY AND THE COMMON AGRICULTURAL POLICY.

IT ACKNOWLEDGES THAT IF THE NEW CURRENCY REGIME IS TO BE "DURABLE" IT WILL BE NECESSARY TO PREVENT ANY FURTHER WIDENING OF THE GAP BETWEEN THE RICHER AND POORER REGIONS OF THE EEC.

FAILURE TO ACHIEVE GREATER COVERGENCE IN THE GROWTH RATES AND INFLATION RATES OF MEMBER STATES WILL QUICKLY UNDERMINE SCHEMES FOR CURRENCY STABILITY NO MATTER HOW WELL THEY ARE DESIGNED.

BRITAIN IN PARTICULAR HOLDS THIS VIEW, ALTHOUGH IT WAS THE ITALIANS THAT FORMALLY REQUESTED THE "CONCURRENT EXERCISE".

EQUALLY THORNY PROBLEMS CONFRONT THE MONETARY COMMITTEE, ON WHICH BRITAIN IS REPRESENTED BY MR. NICK JORDAN MOSS AND MRS. MARY HEDLEY-MILLER, RESPECTIVELY A DEPUTY SECRETARY AND AN UNDER-SECRETARY AT THE TREASURY.

THERE IS NOT YET EVEN ANY AGREEMENT ON WHAT SHOULD BE THE NUMERAIRE, OR YARDSTICK, IN THE NEW CURRENCY SYSTEM. BRITAIN AND MOST OTHER MEMBERS OF THE COMMUNITY

WANT IT TO BE SOMETHING LIKE THE EUROPEAN UNIT OF ACCOUNT,
BASED ON A BASKET OF CURRENCIES.

BY CONTRAST THE WEST GERMANS WANT THE SYSTEM TO BE
BASED ON NOMINAL EXCHANGE RATES. THE REASONS FOR THESE
DIFFERENCES ARE OBVIOUS. A SYSTEM BASED ON A BASKET OF

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CURRENCIES WOULD PREVENT STERLING BEING PULLED UP TOO
MUCH ON THE COATTAILS OF THE DEUTSCHEMARK BUT MIGHT COM-
PEL THE GERMANS TO INTERVENE MORE EXTENSIVELY THAN THEY
WISHED.

THE LATTER COURSE COULD HAVE INFLATIONARY IMPLICA-
TIONS FOR THE GERMANS, AS IT WOULD BOOST THE COUNTRY'S
MONEY SUPPLY.

BEYOND THIS DIFFICULTY IS THE QUESTION OF HOW MARKET
INTERVENTION WOULD BE CARRIED OUT AND IN WHAT CURRENCIES,

AS WELL AS WHETHER THE APPRECIATION AND DEPRECIATION OF
CURRENCIES SHOULD BE SYMMETRICAL.
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MOREOVER, IN SPITE OF PUBLIC STATEMENTS BY GERMAN
OFFICIALS, APPROVING THE POOLING OF PART OF THE FOREIGN
CURRENCY RESERVES OF EEC MEMBER COUNTRIES, IT IS CLEAR
THAT THERE IS MUCH OPPOSITION TO THIS MOVE BY THE GERMAN
FEDERAL BANK.

ONE ALTERNATIVE TO THE STRAIGHT POOLING OF RESERVES
WOULD BE THE ESTABLISHMENT OF A EUROPEAN MONETARY FUND,
BUT THIS, I TURN PRESENTS SOME OF THE BIGGEST PROBLEMS
OF ALL, NOT LEAST BECAUSE IF THE CONDITIONS OF BORROWING
FROM THE FUND PROVED TOO ONEROUSW THEY COULD BE DEFLATION
ARY.

A TOP PRIORITY OF THE BRITISH TEAM AT THE TREASURY,
UNDER M. KEN COUZENS, THE SECOND PERMANENT SECRETARY,
RESPONSIBLE FOR OVERSEAS FINANCE, IS TO SEE THAT THERE
ARE "SYMMETRICAL OBLIGATIONS" ON ALL EEC MEMBERS TO
AVOID A TENDENCY TO DESLATION IN THE NEW SYSTEM.

THE CRUCIAL DIFFICULTY IS THAT THIS REQUIRES FINDING
SOME MEANS OF PENALIZING COUNTRIES THAT ARE PERSISTENT
CREDITORS WITH THE EUROPEAN MONETARY FUND. THIS IS SOME
THING THAT WAS NOT ACHIEVED WHEN THE INTERNATIONAL
MONETARY FUND WAS SET UP. END QUOTE.

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